

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 SS-15 SP-02 EB-07 INR-07 OES-03 NEA-10

L-03 /058 W

----- 086773

R 080920Z JUL 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1415

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 9121

STADIS////////////////////////////////////

E.O. 11652: GDS

TAGS: ENRG, PFOR, JA

SUBJECT: MIKI VISIT TO WASHINGTON--ENERGY PROBLEMS

EA/J FOR SHERMAN

1. SUMMARY. EMBASSY SUBMITS HERewith DRAFT TALKING POINTS PAPER ON ENERGY PROBLEMS FOR PRESIDENT FORD-PM MIKI MEETING AUGUST 5-6. EMBASSY RECOGNIZES THIS DRAFT WILL HAVE TO BE SCRUTINIZED CAREFULLY BY ENDERS/BOSWORTH IN EB AND KRATZER IN OES. END SUMMARY.

2. BEGIN DRAFT PAPER. ENERGY. (NOTE: PM MIKI WILL RAISE IF THE PRESIDENT DOES NOT DO SO FIRST.)

A. JAPANESE POSTION

(1) OPEC OIL PRICE HIKE. JAPAN IS WORRIED THAT ANY INCREASE IN OCTOBER MAY ADVERSELY AFFECT THE RECOVERY OF WORLD ECONOMY, RESTIMULATE INFLATION, EXACERBATE BALANCE OF PAYMENTS PROBLEMS FOR MANY COUNTRIES (ESPECIALLY DEVELOPING COUNTRIES) AND INCREASE TENSIONS BETWEEN OIL CONSUMING AND PRODUCING COUNTRIES. HE WILL COMMEND YOUR FORTHRIGHT PUBLIC AFFIRMATION IN LATE JUNE THAT AN INCREASE IS UNJUSTIFIED AND UNACCEPTABLE. HE MAY ASK FOR YOUR CURRENT ASSESSMENT OF OPEC'S PRICE INTENTIONS
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ON OCTOBER 1 AND WHAT YOU INTEND TO DO IF OPEC IMPOSES AN INCREASE.

(2) PRODUCER/CONSUMER DIALOG. MIKI WILL RE-

CONFIRM JAPAN'S EARNEST DESIRE TO RESUME THE DIALOG AT THE EARLIEST POSSIBLE MOMENT AND URGE THAT WE USE OUR INFLUENCE WITH THE MORE REASONABLE OPEC COUNTRIES TO TRY TO GET IT UNDERWAY BEFORE THE OCTOBER 1 OPEC MEETING SCHEDULED TO CONSIDER AN OIL PRICE HIKE.

(2) CONSUMER COOPERATION AND THE IEA. MIKI WILL ASSURE YOU OF JAPAN'S SINCERE DESIRE TO COOPERATE WITH US AND OTHER IEA MEMBERS BUT WILL POINT TO SERIOUS CONSTRAINTS ON JAPAN'S ABILITY TO BE AS FORTHCOMING OR MORE AS QUICKLY AS THE US WOULD LIKE ON CERTAIN KEY ISSUES INCLUDING.

(A) 90-DAY STOCKPILE TARGET. THE DIET WAS UNWILLING AT ITS SESSION ENDING JULY 4 TO AUTHORIZE THE ENORMOUS SUMS NEEDED TO ACHIEVE THIS MULTI-YEAR TARGET. FUNDS ARE IN HAND TO INCREASE STOCKS BY 7-5 DAYS (TO 67.5 DAYS) BY SEPT 30 THIS YEAR. MIKI WILL PLEDGE HIS BEST EFFORTS BUT WILL BE UNABLE TO COMMIT JAPAN TO MEETING 90 DAYS BY ANY FIXED DATE.

(B) LONG-TERM COOPERATION AND THE MSP (MINIMUM SAFEGUARD PRICE). MIKI WILL ACKNOWLEDGE THE NEED TO ATTRACT MASSIVE INVESTMENTS TO ALTERNATIVE ENERGY SOURCES BUT WILL EXPRESS SERIOUS MISGIVINGS ABOUT THE MSP CONCEPT. (THE REAL REASON FOR THESE MISGIVINGS IS MIKI'S HONEST DOUBT THAT HE HAS ANY CHANCE OF SELLING THE MSP TO THE DIET WHERE IT WILL BE VIEWED AS A DEVICE TO KEEP ENERGY COST HIGH IN PERPETUITY AND TO THE BENEFIT OF ENERGY-RICH COUNTRIES).

(KFL URANIUM ENRICHMENT. MIKI MAY EXPRESS HIS APPRECIATION FOR YOUR JUNE 26 ANNOUNCEMENT AND INVITATION TO JAPANESE INVESTORS TO PARTICIPATE IN THE PROPOSED NEW ENRICHMENT FACILITY. HE MAY INQUIRE ABOUT PROSPECTS FOR CONGRESSIONAL APPROVAL OF NECESSARY LEGISLATION. (WHETHER HE WILL BE IN A POSITION TO GO BEYOND THIS WILL DEPEND ON THE OUTCOME OF DISCUSSIONS CURRENTLY UNDERWAY IN JAPAN.)

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(5) ENERGY RESEARCH AND DEVELOPMENT. PM MIKI MAY SEEK ELABORATION OF SECRETARY KISSINGER'S OFFER TO EXPAND JOINT ENERGY R&D EFFORT WITH JAPAN AS MADE IN HIS JAPAN SOCIETY SPEECH JUNE 18.

B. SUGGESTED TALKING POINTS

(1) OIL PRICE HIKE

- YOUR HOPE OUR UNTIRING EFFORTS TO PREVENT WAR IN MIDDLE EAST WILL INDUCE THE MORE REASONABLE OPEC MEMBERS TO RESIST THE MORE RADICAL ONES AND LEAVE OIL PRICES ALONE FOR ANOTHER 6 MONTHS BUT WE CAN'T BE TOO

SANGUINE.

- YOU REGRET TO HAVE TO SAY A HIKE OF AT
LEAST \$1 PER BARREL AND POSSIBLE \$2 SEEMS TO BE A REAL
POSSIBILITY.

- YOU ARE NOT ABLE TO SAY WHAT WE MIGHT DO IF
OIL PRICES DO RISE ON OCTOBER 1 (OTHER THAN TO INDICATE
THAT MILITARY ACTION IS NOT UNDER STUDY AS A SERIOUS OPTION).
MUCH DEPENDS ON THE SIZE OF THE INCREASE AND THE STATUS
OF PEACE EFFORTS IN THE MIDDLE EAST AT THAT TIME.

- A PRICE HIKE, IF IT COMES, MAY HAVE ONE
BENEFICIAL SIDE EFFECT; IT MAY SHOCK THE PEOPLE AND
PARLIAMENTS OF THE CONSUMING COUNTRIES INTO REALIZING
THE DANGER WE ALL FACE SO LONG AS WE REMAIN SO VULNERABLE
TO DEPENDENCE ON OPEC OIL.

(2) P/C DIALOG

- YOU TOO WANT THE DIALOG RESUMED BUT THE

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ACTION EA-10

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L-03 /058 W

----- 088281

R 080920Z JUL 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1416

C O N F I D E N T I A L SECTION 2 OF 2 TOKYO 9121

STADIS//////////

PRODUCERS' INSISTANCE THAT MANY OTHER VAST SUBJECTS
(COMMODITIES) ALSO BE TAKEN UP MAKES US RATHER SKEPTICAL
THAT WE CAN EXPECT TO ENGAGE OPEC VERY QUICKLY IN A
SERIOUS DISCUSSION OF AN EQUILIBRIUM PRICE FOR OIL.

- THIS RATHER BLEAK FORECAST UNDERLINES THE
NEED FOR THE CONSUMERS TO MOVE AHEAD WITH A PROGRAM OF
LONG TERM COOPERATION IN THE IEA.

(3) CONSUMER COOPERATION

(A) STOCKPILE TARGET

- YOU APPRECIATE THE FINANCIAL BURDEN
OF STOCK-BUILDING.

PERHAPS WE CAN HELP JAPAN REDUCE

THE COST; OIL STORAGE IN US GULF COAST "SALT DOMES" IS ESTIMATED TO COST ABOUT \$1 PER BARREL PER YEAR WHILE ABOVE-GROUND OR OFF-COAST STORAGE IN JAPAN WILL COST MANY TIMES THAT AMOUNT. (WE HAVE PROPOSED THIS BEFORE AT OFFICIAL LEVEL BUT JAPAN HAS NOT NIBBLED FOR REASONS THAT ARE UNCLEAR TO US.)

(B) LONG TERM COOPERATION AND MSP
- YOU REALIZE OUR STRATEGY INVOLVES
HIGH COSTS AND MANY RAMIFICATIONS FOR OUR ECONOMIES.
- REPEATED INTERNAL US RE-EXAMINATION
OF OUR BASIC APPROACH (AS WELL AS DISCUSSION IN THE IEA)
HAS FAILED TO UNCOVER AN ALTERNATIVE THAT WOULD BE ENOUGH
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AT LESS COST TO ACHIEVE THE OBJECTIVE OF ATTRACTING
SUFFICIENT CAPITAL INTO NEW INVESTMENT TO BREAK THE OPEC
STRANGLE-HOLD ON OUR ECONOMIES.

- WE DO NOT INSIST ON FORCING THE PACE OF
IEA WORK IN A WAY THAT WOULD APPEAR CONFRONTATIONAL
(WE HAVE SUPPORTED PROMPT RESUMPTION OF THE P/C DIALOG
AND ACCEPTED A SCHEDULE OF IEA WORK LOOKING TOWARD AGREE-
MENT ON THE MSP BY DECEMBER 1, 1975,

(4) URANIUM ENRICHMENT
- YOU HOPE JAPANESE INVESTMENT WILL BE
FORTHCOMING

- WE WOULD WELCOME ANY AMOUNT UP TO \$700
MILLION (20PCT OF THE ESTIMATED \$3.5 BILLION TOTAL COST).
- GUARANTEED JAPANESE ACCESS TO A SHARE
OF THE OUTPUT PROPORTIONATE TO JAPANESE INVESTMENT WILL
BE ONE STEP TOWARD REDUCING JAPAN'S VULNERABILITY
TO OPEC POLITICAL DECISIONS.

3. BACKGROUND FACTS

IMPORTS. JAPAN IS ALMOST TOTALLY DEPENDENT (OVER
90PCT) ON IMPORTED CRUDE. ONLY A SMALL PERCENTAGE COMES
FROM NON-OPEC SOURCES (1.6 PCT FROM CHINA). BIGGEST SUPPLIERS
TO JAPAN ARE SAUDI ARABIA 27PCT, IRAN 25PCT, INDONESIA 14 PCT,
UNITED ARAB EMIRATES 11PCT, KUWAIT 10PCT.
COST. JAPAN'S OIL IMPORT BILL ROSE FROM \$6 BILLION
IN 1973 TO NEARLY \$19 BILLION IN 1974 AND NOW ACCOUNTS
TO 30PCT OF JAPAN'S TOTAL IMPORTS.

CONSUMPTION OF REFINED PRODUCTS. DECLINED 2.7 PCT IN
1974 OVER 1973, DECLINED 11.1PCT IN FIRST QUARTER OF 1975 OVER
FIRST QUARTER OF 1974, DECLINED 5.1 PCT IN FIRST QUARTER OF

1975 OVER LAST QUARTER OF 1974. MOST OF THE DECLINE CAN
PROBABLY BE ATTRIBUTED TO THE ECONOMIC RECESSION BUT
SOME ENERGY SAVING PROGRAMS HAVE BEEN ADOPTED ESPECIALLY BY

INDUSTRIAL USERS.

HODGSON

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